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ADOPTION OF THE REPORT OF THE COMMISSION ON THE SECOND PART OF ITS EIGHTEENTH SESSION

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Draft report

Addendum

Chapter ___

GENERAL DISCUSSION ON TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES

1. The Commission considered item 4 of its agenda at the 1st to 3rd meetings of its resumed session, on 8 and 9 April 1992. It had before it the report of the Secretary-General on trends in foreign direct investment (E/C.10/1992/3); the report of the Secretary-General on transnational corporations and economic growth through technology (E/C.10/1992/4); and the report of the Secretary-General on transnational corporations in the new world economy: issues and policy implications (E/C.10/1992/5).

2. The Director of the Division of Transnational Corporations and Management, in his opening statement, said that the expansion of transnational corporations in a period of economic weakness in a number of large economies indicated that investment decisions of these firms were increasingly guided by long-range strategic considerations. At the same time, the Director stated that the continuing concentration of foreign direct investment in the developed market economies suggested the need for more concerted efforts to encourage investments in developing countries. In introducing the reports on this agenda item, the Acting Assistant Director for the Research and Policy

Analysis Branch of the Centre on Transnational Corporations in the Division, said that despite the growing role of foreign direct investment in world economy, most developing countries remained relatively marginalized, thus presenting a serious challenge for the world community. The activities of transnational corporations were crucial factors in accelerating the growth of developing countries and in the development and dissemination of technology. Finding ways of linking their activities to the needs of developing countries was a major concern. To this end, he stated that countries might want to consider ways of improving transparency in the area of foreign direct investment policies, for the benefit of both policy makers as well as potential investors.

3. Most delegations commented on the expanding role of transnational corporations in the world economy. A number of delegations from developed market economies described the substantial growth in both outflows of foreign direct investment from their countries and inflows into their countries. Several developing countries attributed the growth of inflows of foreign direct investment into their economies to policy initiatives and improvements in their economic situation. One delegation noted that an emphasis on national policies and market-based approaches towards foreign direct investment fostered free enterprise and initiative, and created a climate conducive to investment. One delegation discussed the factors leading to increased inflow of foreign direct investment and suggested additional research on the factors contributing to the success of certain investment locations which would benefit all host countries. Another delegation focused on the results of foreign direct investment, including economic growth, job creation and technology transfer. Regional integration was cited by one delegation as an important factor for increased inflows of foreign direct investment. The role of transnational corporations in integrating key economic activities across national borders was cited by several delegations as indicative of the growing importance of transnational corporations to future growth prospects throughout the world economy. One delegation suggested that investment represented the most stable and permanent form of economic interaction between nations.

4. Many delegations expressed concern about the persistent imbalances in global flows of foreign direct investment. Most delegations addressing the issue commented on the declining share of global flows going to developing countries, and the extremely low level of foreign direct investment in the least developed countries and most other countries in Africa. One delegation indicated that foreign direct investments going to Central and Eastern European countries should not be at the expense of developing countries. Some delegations drew attention to the fact that the absolute amount of foreign direct investment in developing countries had increased substantially. One delegation, speaking on behalf of a large number of developing countries, urged that greater efforts be undertaken to break the cycle of regional disparities, including efforts by home countries to educate transnational corporations regarding investment prospects in Africa and the least developed countries. Another delegation urged transnational corporations to adopt a long-term attitude towards those countries. One delegation stated that international institutions and home countries should adopt measures to increase the flow of foreign direct investment to least developed countries in

support of liberalization. The same delegation stressed the need for the establishment of regional investment centres to disseminate information on host country conditions. Another delegation suggested that more research be undertaken on the investment climate in host developing countries that have been successful in attracting foreign direct investment, which would serve as a guide for policy makers in other countries.

5. The continuing efforts on the part of host countries to liberalize their policy frameworks drew the attention of a large number of delegations. One delegation noted that market forces often worked slowly but that they were preferable to extensive interventions. Several delegations from developing countries and countries of Central and Eastern Europe described changes in their policy regimes, including the relaxation of restrictions on the operations of transnational corporations; efforts to facilitate the working of market forces, including privatization of State-owned enterprises; fiscal changes designed to reduce tax burdens and increase the profitability of investment; programmes to improve physical infrastructure and to develop human resources and more open trade regimes. Some delegations indicated that despite liberalization efforts, they had not received the amount of foreign direct investment they had expected. They requested that a study be conducted to determine other factors considered by transnational corporations when making investment decisions. One delegation stated that the decline in military expenditures and the need to convert military production facilities to civilian uses represented an opportunity for expanded foreign direct investment. Some delegations suggested that, keeping in mind the recent restructuring of the Economic and Social Council, the most valuable work of the Secretariat would continue to be institution-building in host countries. That, they stated, would result from a focus on analysis dialogue and technical cooperation.

6. Most delegations shared the view that technology was a critical determinant of economic growth of all countries. Technology, including physical goods, as well as know-how used in production and marketing, was closely interlinked with economic development.

7. Many delegations observed that transnational corporations had been the major actors in development of technologies and the principal sources of technologies acquired by developing countries. In the changed international context, transnational corporations had the potential to transfer technologies not merely through foreign direct investment, but also through a variety of other cooperative arrangements including joint ventures, trade and sub-contracting arrangements.

8. A number of delegations expressed the opinion that the growth-enhancing impact of technology transfer was ultimately dependent on the incentive structure faced by both foreign and domestic enterprises in acquiring, adapting, innovating upon and diffusing technologies. In this context, the importance of the creation of an enabling environment through host country public policies concerning physical infrastructure, human resources development, competition and R&D was emphasized. In many of these areas, complementary support from the international community was also needed.

9. One delegation expressed the concern that the growing tendency towards internalization of technology by transnational corporations through networks and alliances might pose a barrier to acquisition of technologies by developing countries. Another urged the need for lifting restrictions imposed by some developed countries on technology transfer, particularly in high technology industries.

10. A number of delegations suggested that a reporting system on laws, regulations and administrative guidelines affecting the activities of transnational corporations be established to increase the transparency of policy frameworks of host countries. One delegation, speaking on behalf of a group of countries, stated that the concept of transparency was useful and that it should be applied to both host countries and transnational corporations. In that context, another delegation stated that a catalogue of investment instruments would help countries that are seeking to attract larger amounts of foreign direct investment and potential investors. Two delegations said that the efforts involved in creating a reporting system were substantial and could duplicate efforts being undertaken in other organizations. Another delegation said that such efforts were useful and should be undertaken in concert with other international organizations.

11. In concluding the session, the Director stated that the Division already had extensive working arrangements with other organizations and would make all efforts to avoid duplication in devising its methodology for obtaining information on policy issues. The Acting Assistant Director, responding to a number of research issues raised during the discussion, stated that other international organizations had already been consulted and no other organization was assembling systematically and authoritatively policy information on foreign direct investment. He further noted that a more comprehensive research on the role of transnational corporations in economic growth was near completion. He stated that the importance of locational factors and of policy issues as determinants of foreign direct investment required ongoing research efforts, and that the general question of the role of foreign direct investment in increasing the competitiveness of nations and of firms would continue to receive attention in the Centre's research agenda.

Action taken by the Commission

12. The Commission took note of the reports of the Secretary-General on trends in foreign direct investment (E/C.10/1992/3); on transnational corporations and economic growth through technology (E/C.10/1992/4); and on transnational corporations in the new world economy, issues and policy implications (E/C.10/1992/5). The Commission commended them for their analytical merit. It requested the Secretariat to continue its work on foreign direct investment and the role of transnational corporations in development and submit to the Commission on Transnational Corporations at its nineteenth session reports dealing with those matters.